



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER GRAVES COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

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EXECUTIVE SUMMARY

GRAVES COUNTY ROBERT MORGAN, FORMER SHERIFF SHERIFF TAX SETTLEMENT AND UNMINED COAL TAXES 1998 TAXES

Type of Opinion

We have issued an unqualified (clean) opinion on the financial statement of the former Graves County Sheriff.

Comments and Recommendations

The Former Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$757,716 As Collateral To Protect Deposits

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Tony Smith, Graves County Judge/Executive

Honorable John L. Davis, Graves County Sheriff

Honorable Robert Morgan, Former Graves County Sheriff

Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the former Graves County Sheriff's Settlement - 1998 Taxes as of December 31, 1998 and the former Graves County Sheriff's Settlement - 1998 Unmined Coal Taxes as of December 31, 1998. These tax settlements are the responsibility of the Former Graves County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statements on a prescribed basis of accounting that demonstrated compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the former Graves County Sheriff's taxes charged, credited, and paid as of December 31, 1998 in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Honorable Robert Morgan, Former Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Former Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$757,716 As Collateral To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated July 5, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 5, 2000

GRAVES COUNTY
ROBERT MORGAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

December 31, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 642,358	\$ 671,082	\$ 1,658,615	\$ 1,116,827
Tangible Personal Property	111,504	94,513	265,847	425,400
Intangible Personal Property				130,016
Fire Protection	707			
Franchise Corporation	183,663	74,945	186,399	
Additional Taxes	144	140	236	689
Adjusted to Sheriff's Receipt	<u>(60)</u>	<u>(16)</u>	<u>(202)</u>	<u>(537)</u>
Gross Chargeable to Sheriff	<u>\$ 938,316</u>	<u>\$ 840,664</u>	<u>\$ 2,110,895</u>	<u>\$ 1,672,395</u>
<u>Credits</u>				
Discounts	\$ 10,779	\$ 10,873	\$ 27,259	\$ 25,299
Exonerations	3,596	3,467	8,862	7,627
Transfers to Incoming Sheriff	<u>100,102</u>	<u>103,550</u>	<u>265,440</u>	<u>186,083</u>
Total Credits	<u>\$ 114,477</u>	<u>\$ 117,890</u>	<u>\$ 301,561</u>	<u>\$ 219,009</u>
Net Tax Yield	\$ 823,839	\$ 722,774	\$ 1,809,334	\$ 1,453,386
Less: Commissions *	<u>35,301</u>	<u>30,063</u>	<u>72,373</u>	<u>62,056</u>
Net Taxes Due	\$ 788,538	\$ 692,711	\$ 1,736,961	\$ 1,391,330
Taxes Paid	788,159	692,339	1,735,916	1,390,552
Refunds (Current and Prior Year)	<u>379</u>	<u>363</u>	<u>1,044</u>	<u>779</u>
Due Districts or (Refund Due Sheriff) as of		**		
Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 9</u>	<u>\$ 1</u>	<u>\$ (1)</u>

* and ** See Page 4

GRAVES COUNTY
ROBERT MORGAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
December 31, 1998
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,969,844
4% on	\$	1,809,334
1% on	\$	20,155

** Special Taxing Districts:

Library District	\$	6
Health District		<u>3</u>
Due Districts	\$	<u><u>9</u></u>

The accompanying notes are an integral part of the financial statements.

GRAVES COUNTY
 ROBERT MORGAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES

December 31, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 126	\$ 123	\$ 429	\$ 219
<u>Credits</u>				
Discounts	\$ 2	\$ 2	\$ 8	\$ 4
Net Tax Yield	\$ 124	\$ 124	\$ 421	\$ 215
Less: Commissions *	5	5	17	9
Net Taxes Due	\$ 119	\$ 119	\$ 404	\$ 206
Taxes Paid	119	116	404	206
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on	\$	460
4% on	\$	421

GRAVES COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The Former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 4, 1998, the uncollateralized amount on deposit was \$757,716. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit

GRAVES COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 1998
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 4, 1998.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 3,045,223
Uncollateralized and uninsured	<u>757,716</u>
Total	<u><u>\$ 3,802,939</u></u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The former Sheriff's collection period for these assessments was October 30, 1998 through December 31, 1998. Collection responsibilities for 1998 taxes were transferred from the Former Sheriff to the current Sheriff as of January 4, 1999.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1998. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The former Sheriff's collection period for these assessments was October 28, 1998 through December 31, 1998. Collection responsibilities for 1998 unmined coal taxes were transferred from the Former Sheriff to the current Sheriff as of January 4, 1999.

Note 4. Interest Income

The former Graves County Sheriff earned \$3,294 as interest income on 1998 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION

GRAVES COUNTY
ROBERT MORGAN, FORMER SHERIFF
COMMENT AND RECOMMENDATION

December 31, 1998

The Former Sheriff Should Have Required Depository Institutions To Pledge Additional Securities
Of \$757,716 As Collateral To Protect Deposits

The former Sheriff's deposits were not adequately secured by \$757,716 as of December 4, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities as collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. We recommend that the current Sheriff require depository institutions to pledge sufficient securities as collateral to protect deposits at all times.

Sheriff's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Honorable Robert Morgan, Former Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Graves County Sheriff's Settlement - 1998 Taxes as of December 31, 1998, and the former Graves County Sheriff's Settlement - 1998 Unmined Coal Taxes as of December 31, 1998, and have issued our report thereon dated July 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Honorable Robert Morgan, Former Graves County Sheriff
Members of the Graves County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 5, 2000

